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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

11 BETTA PRODUCTS, INC, et al., No. C 05-02273 CRB
12 Plaintiffs, **ORDER DENYING MOTION FOR**
13 v. **ATTORNEYS' FEES**
14 TRANSGLOBAL COMMUNICATIONS, et
15 al.,
16 Defendants. /

17 Plaintiffs dismissed this misappropriation of trade secrets action with prejudice. Now
18 pending is defendants' motion for attorneys' fees pursuant to California Civil Code section
19 3426.4, 28 U.S.C. section 1927, and the Court's inherent authority. After carefully
20 considering the papers filed by the parties, and having had the benefit of oral argument, the
21 Court, in its discretion, DENIES defendants' motion.

22 **BACKGROUND**

23 **A. Factual Background**

24 Plaintiff Betta Products, Inc. was engaged primarily in the design, production,
25 importation and sale of consumer "party goods." Betta's products included the Pizzazz line
26 of gift bags, gift boxes and related accessories. As part of its business activities, Betta
27 asserted that it developed various trade secrets.

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1 Betta contends that in 2002, defendant Transglobal Communications, Inc.
2 (“Transglobal”) abruptly entered the party goods business with products allegedly “similar or
3 identical” to Betta’s Pizzazz product line. Betta alleges that Transglobal’s entry into the
4 party goods marketplace grew out of a scheme to steal Betta’s trade secrets and employees
5 and that several of its employees divulged trade secrets to Transglobal while still working for
6 Betta and later after resigning and taking jobs with Transglobal. Betta also contends that
7 defendants unlawfully copied plaintiff’s Pizzazz line by using Betta’s manufacturing and
8 production sources, customer list and pricing strategy.

Procedural History

10 On April 15, 2003, Betta filed a petition for Chapter 11 bankruptcy relief in the United
11 States Bankruptcy Court for the Northern District of California. One year later, Betta filed
12 an action in Sonoma County Superior Court captioned Betta Products, Inc. v. Transglobal
13 Communications, Inc., et al. (hereinafter the “Sonoma Complaint.”). In the Sonoma
14 Complaint, based on California Uniform Trade Secrets Act (Cal. Civ. Code § 3426 et seq.),
15 Betta accused Transglobal and other individual defendants of misappropriating Betta’s trade
16 secrets and subsequently using those trade secrets for the benefit of Transglobal and to the
17 detriment of Betta. On January 21, 2005, Betta unilaterally dismissed its Sonoma Complaint.
18 Betta’s counsel in the state court action was Sternberg Horner & Associates.

19 On April 15, 2005, Betta, represented by different counsel, filed a second complaint
20 against Transglobal and other individual defendants in the bankruptcy proceeding, Adversary
21 Case No. 05-01047 AJ. In the event that the suit was successful, money recovered from
22 Transglobal and the individual defendants would have been used in the bankruptcy estate of
23 Betta to pay claims of Betta's creditors. On July 7, 2005, this Court granted Betta's motion
24 to withdraw the reference to this Court.

25 On November 28, 2005, Betta filed its Third Amended Complaint. Betta's Third
26 Amended Complaint made nine claims for relief against Transglobal and five former Betta
27 employees, including claims for violation of the California Uniform Trade Secrets Act (Cal.
28 Civ. Code § 3426 et seq.), breach of fiduciary duty, unfair competition, slander and

1 interference with actual and prospective economic advantage. Transglobal did not assert any
2 counterclaims in its Answer to the District Court Complaint filed Dec. 12, 2005. However,
3 on January 19, 2006, Transglobal filed a complaint in Mendocino County Superior Court
4 (hereinafter the “Mendocino Complaint”) alleging that Betta and one of its principals
5 committed the tort of malicious prosecution in pursuing the Sonoma Complaint. In April
6 2006, pursuant to a stipulation between counsel, Transglobal was permitted to file the
7 Mendocino Complaint as a Counterclaim in this action. The Counterclaim contended that
8 Betta brought and pursued the Sonoma Complaint with malice and without probable cause.

9 Betta subsequently moved to dismiss the malicious prosecution counterclaim. This
10 Court denied the motion at a hearing in June 2006.

11 At a case management conference in September 2006 the Court set a February 2006
12 hearing date on a summary judgment motion addressing whether Betta has any trade secrets.
13 By stipulation the parties continued the summary judgment deadline to March 30, 2007 and
14 then again to May 25, 2007 and then again to October 19, 2007. With the last continuance
15 the Court directed that it would not grant any further continuances, even if stipulated.

16 On August 31, 2007, plaintiffs moved for voluntary dismissal without prejudice. The
17 Court granted the dismissal with prejudice in light of the age of the case. Defendants now
18 move for attorneys’ fees and costs pursuant to Civil Code section 3426.4 and/or for
19 vexatiously multiplying the proceedings pursuant to 28 U.S.C. section 1927.

20 DISCUSSION

21 A. Section 3426.4

22 Section 3426.4 provides that a court may award fees and costs if a claim for
23 misappropriation was brought in bad faith. “The California Court of Appeal has interpreted
24 the statute’s ‘bad faith’ element to require ‘objective speciousness of the plaintiff’s claim
25 . . . and its subjective bad faith in bringing or maintaining the claim.’” CRST Van
26 Expedited, Inc. v. Werner Enterprises, Inc., 479 F.3d 1099, 1111 (9th Cir. 2007) (citation
27 omitted). “The ‘bad faith’ contemplated by section 3426.4 means not only that the claim is
28 objectively specious but that the plaintiff acted with subjective bad faith. This means that the

1 action or tactic [was] pursued for an improper motive.” Yield Dynamics, Inc. v. Tea Systems
2 Corp., 154 Cal.App.4th 547, 578 (2007) (internal quotation marks and citations omitted).
3 “That question involves a factual inquiry into the plaintiff’s subjective state of mind: Did he
4 or she believe the action was valid? What was his or her intent or purpose in pursuing it?”
5 Id. (internal quotation marks and citations omitted).

6 The Court finds that plaintiffs did not act in subjective bad faith, that is, for an
7 improper motive. First, the bedrock of defendants’ argument is that Betta dismissed the
8 Sonoma County action to avoid having to identify trade secrets they knew they did not own.
9 A December 10, 2004 letter from Betta’s counsel to Betta, however, suggests that Betta
10 dismissed the action because defendants had moved to disqualify Betta’s counsel and counsel
11 had determined that it must withdraw immediately.

12 Second, defendants do not dispute the factual backdrop that led to the lawsuits in the
13 first place; namely, that the individual defendants left Betta, joined Transglobal, and then
14 Transglobal starts selling products similar to those marketed by Betta. Such circumstances
15 support a good faith belief in the misappropriation claims. That Betta later operated solely as
16 a licensing entity does not suggest that Transglobal was never competing directly with Betta.

17 Third, Betta completely went out of business in mid 2006 and no longer had any
18 employees or any business, even its licensing business. In early 2007, when Betta’s counsel
19 started arranging for the deposition of a person most knowledgeable, counsel realized that
20 there was no one left at Betta to assist with the prosecution of the action. Dennis Walsh,
21 although no longer employed by Betta, volunteered to be the person most knowledgeable. In
22 the middle of Walsh’s deposition in March 2007, Betta offered a “walk away” settlement in
23 which all parties would dismiss all of their claims. The parties could not reach an agreement
24 so Betta voluntarily dismissed the action. The Court dismissed it with prejudice. These
25 circumstances do not suggest subjective bad faith.

26 The Court does not find the other evidence cited by defendants, including the initial
27 omission of trade secrets on Betta’s bankruptcy schedule of assets and the sharing of its
28 confidential trade information with a 30 percent shareholder, persuasive of subjective bad

1 faith. While defendants may have ultimately prevailed on an argument that Betta did not
2 have any protectable trade secrets in light of its agreement with its shareholder, the evidence
3 in the record does not suggest that Betta knew the shareholder agreement doomed its
4 misappropriation claims.

5 Accordingly, as the Court does not find that plaintiffs prosecuted their
6 misappropriation claims in subjective bad faith, defendants' motion for attorneys' fees under
7 Civil Code section 3426.4 must be denied.

8 **B. Section 1927**

9 Defendants have also not demonstrated that plaintiffs or their attorneys vexatiously
10 multiplied the litigation. To the contrary, when plaintiffs realized they could not prosecute
11 their case due to the closure of Betta, plaintiffs offered to dismiss their claims rather than
12 force defendants to file a motion for summary judgment.

13 **CONCLUSION**

14 For the reasons explained above, defendants' motion for attorneys' fees is DENIED.

15 **IT IS SO ORDERED.**

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17 Dated: December 26, 2007


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CHARLES R. BREYER
UNITED STATES DISTRICT JUDGE